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UBS Sharpens Focus on Well-Heeled Clients for Growth

Third-quarter results highlight the challenges facing the bank as it tries to convince investors that its strategy will deliver



The UBS logo is seen at the company's headquarters in Zurich. PHOTO: ARND WIEGMANN/REUTERS

By [Brian Blackstone](#) and [Pietro Lombardi](#)

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ZURICH— **UBS** **UBS -0.42%** ▼ Group AG on Thursday said it would gear its growth strategy toward managing money for ultrarich American and Asian clients, as the bank reported a rise in third-quarter profit.

Still, the earnings highlight the challenges facing the Swiss bank as it tries to convince investors that its emphasis on [managing money for well-heeled clients](#), while maintaining a streamlined investment bank, will deliver strong growth.

The U.S. and Asia are fertile ground for this strategy. According to a report last week from [Credit Suisse](#), the U.S. added \$6.3 trillion in wealth during the 12 months through mid-2018 to a total of \$98 trillion, with China in second place with \$52 trillion in wealth. Managing some of this money generates fees for banks and may lead to new business in other divisions like investment banking.

But it is a crowded field. Credit Suisse has in recent years mirrored UBS's strategy in emphasizing wealth management. Swiss private bank Julius Baer is a big player in wealth management, too.



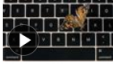


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Most of UBS's profit growth last quarter came from investment banking, which UBS has scaled back in recent years, while wealth management posted weaker-than-expected results.

Meanwhile, UBS warned that [trade disputes and geopolitical tensions](#) could weigh on client activity for the rest of the year.

UBS shares were up 2.5% midday Thursday, extending earlier gains. Despite the rise, the shares are down around 25% on the year and over 30% over the past three years.

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Net profit for the third quarter rose around 32% from a year earlier to 1.25 billion Swiss francs (\$1.25 billion), UBS said, while operating income increased to 7.28 billion Swiss francs compared with 7.15 billion Swiss francs a year earlier. Analysts had expected net profit to stand at 993 million Swiss francs and had forecast adjusted operating income of 7.22 billion Swiss francs, according to a consensus forecast provided by the bank.

The results were “relatively solid,” said analysts at Baader Helvea Equity Research. But the analysts cautioned that the profit gains were from the “lower value” investment banking business, while “the most important unit,” wealth management, came in below expectations.

Adjusted pretax profit at the bank’s investment-banking division rose roughly 44% on year to 507 million Swiss francs, it said. The global wealth management unit reported a 4% drop in adjusted profit, with the bank citing higher expenses related to technology and regulatory costs. The unit drew in 13.5 billion Swiss francs in new money.

“Expansion in the American ultra-high net worth segment alone is expected to contribute significant net new money over the next three years,” UBS said.

The bank said that “geopolitical tensions, rising protectionism and trade disputes have further dampened investor sentiment and confidence.” It expects this to “continue to impact Global Wealth Management clients’ transaction activity in the fourth quarter.”

UBS also unveiled financial targets ahead of its investor update in London, its first since 2014. It said it would aim for a return on its Common Equity Tier 1 capital, a core measure of the bank’s financial strength, of about 17% in 2021.

It also said it would deliver profit growth in wealth management at the upper end of its 10% to 15% range from 2019 to 2021, and that it would achieve at least 3% growth in net new money by 2021.

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